



Director of
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Intelligence

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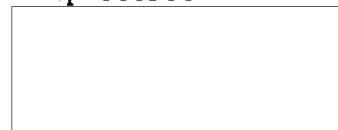
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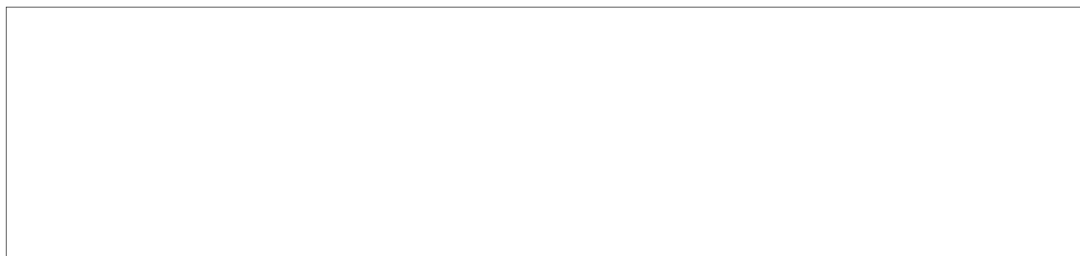
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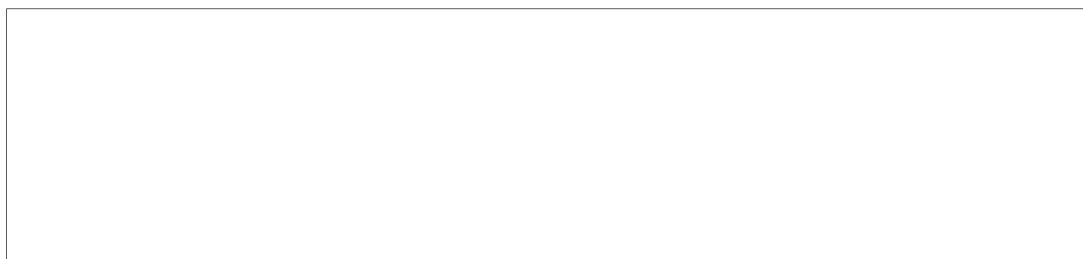
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PORTUGAL: Eanes Plans Election

The early election called for by President Eanes will probably produce a Socialist-led government. [REDACTED]

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President Eanes yesterday rejected the ruling center-right Democratic Alliance coalition's nominee to replace Prime Minister Balsemao, who had announced his resignation on 19 December. Eanes said as soon as the government acted on the budget and other urgent economic matters, he would dissolve parliament and call for an early election. [REDACTED]

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The President asserted that the country needed a new and stronger government to maintain public support for democracy and solve long-term economic problems. Balsemao criticized Eanes's action and hinted publicly that he would refuse to continue presiding over a caretaker administration. [REDACTED]

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Comment: Eanes has long quarreled with Democratic Alliance leaders, and he embarrassed them with his demand that they wrap up unfinished business before he dissolves parliament. Yielding to Eanes's wishes would embarrass them further, but refusing would make them appear irresponsible. [REDACTED]

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The Democratic Alliance brought most of this trouble on itself. The same disagreements among the coalition partners over power, personalities, and economic policy that led to Balsemao's decision to step down also prevented them from uniting behind a credible successor. [REDACTED]

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An election--probably in late April--now appears inevitable. The most likely outcome would be for the Socialists--widely favored to win a strong plurality--to form a coalition government with Balsemao's centrist Social Democrats, who have been the senior partner in the Democratic Alliance. Such a center-left government would not be likely to introduce major domestic or foreign policy changes. [REDACTED]

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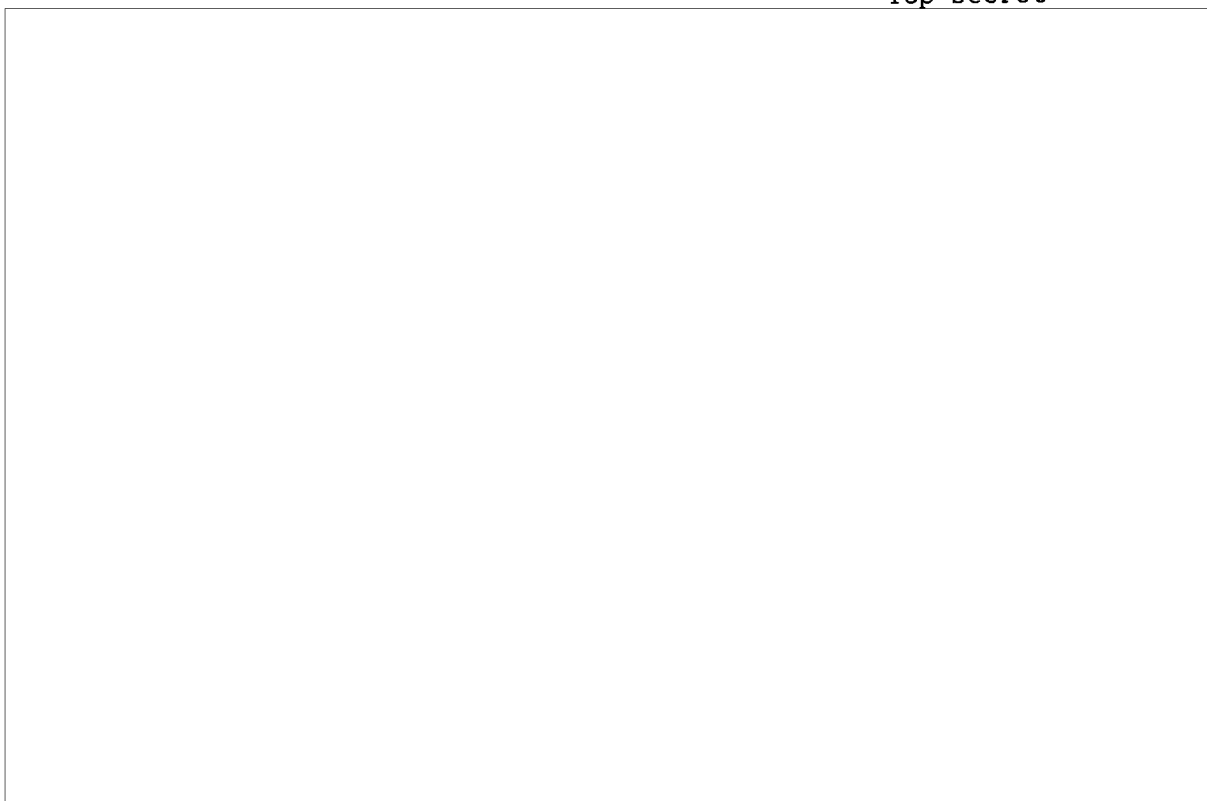
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OPEC: Nearing Agreement on Quotas

According to press reports, OPEC oil ministers appear to be nearing agreement today on crude oil production quotas within an overall ceiling of 17.0-17.5 million barrels per day. While individual quotas have not been mentioned, Saudi Arabia is reportedly willing to limit its output to a maximum of 5 million barrels per day. In addition to the overall quotas, the ministers discussed a possible drop of \$2 per barrel in the price of oil from the Arab Gulf producers, reestablishing the price differential between the Gulf crude and higher quality African oil that existed until last March. [redacted]

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Comment: An overall production ceiling of 17.5 million barrels per day would probably be enough to support the marker price of \$34 per barrel in coming months, but could run into trouble next spring if seasonal demand falls below this level. [redacted]

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MALAYSIA-JAPAN: Prime Minister's Visit

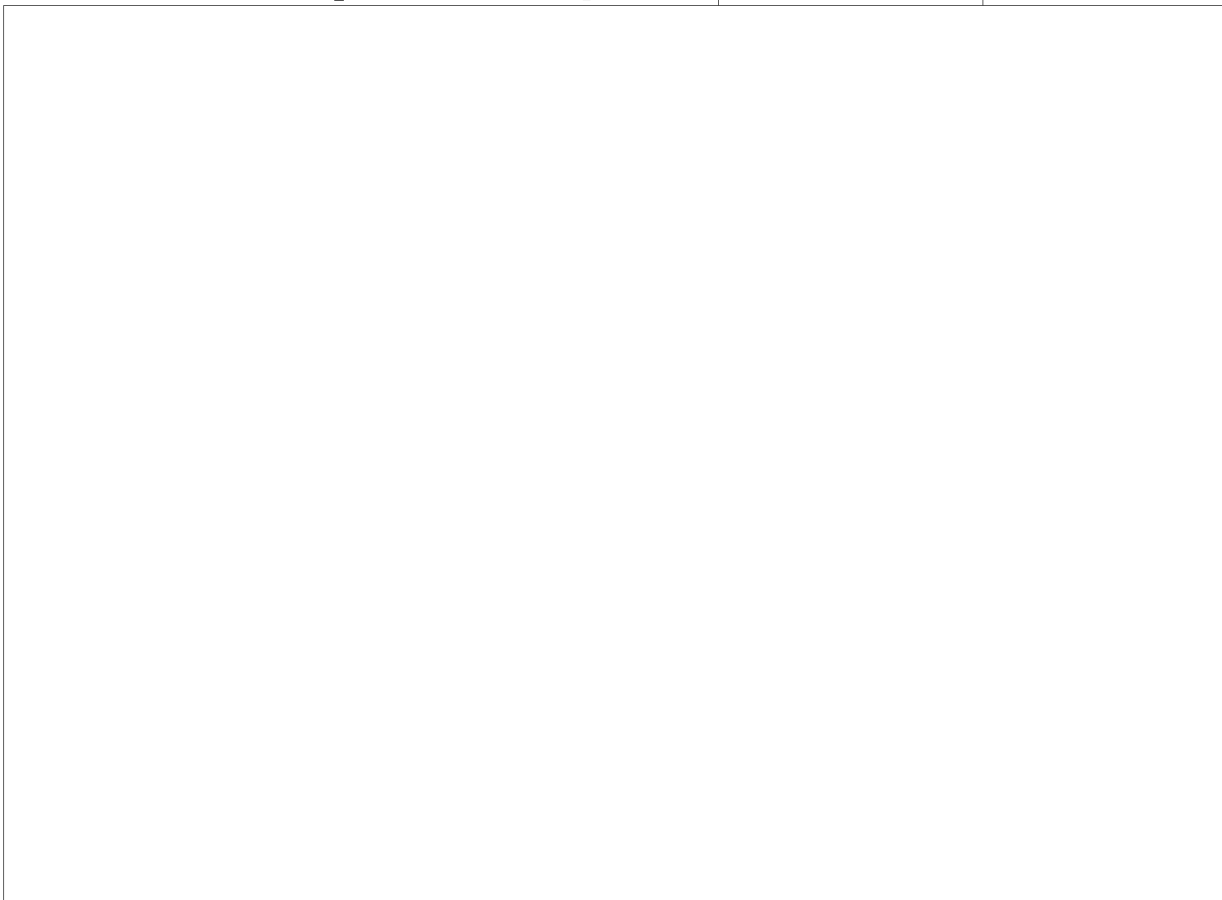
The US Embassy reports Prime Minister Mahathir will use his visit to Japan this week to revive his "look East" development policy and to try to obtain a commitment for \$300 million annually in aid from Tokyo. Mahathir also will seek assurances that Japan will not provide aid to Hanoi until the Vietnamese adopt a more flexible policy on Kampuchea. [redacted]

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Comment: Under the "look East" policy, Malaysia would use Japanese and South Korean development strategies for industrialization rather than relying primarily on the West. The policy has not caught on with the public or with Western-oriented cabinet ministers, however, and the Prime Minister hopes his trip will give it some momentum. The Japanese, citing budget constraints, probably will offer to double aid credits to \$170 million for 1983. Tokyo will find it difficult to discuss other forms of cooperation because Mahathir's delegation does not include any economic experts. [redacted]

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Special Analysis

EL SALVADOR: Politics in the Military

The conflict between Defense Minister Garcia and Army Field Commander Ochoa--the country's most successful field commander--has damaged military unity and revealed broad discontent in the armed forces over the handling of the war effort. Despite the agreement reached by the adversaries, the situation remains fluid. It is set against a backdrop of maneuvering by the extreme right and increasingly aggressive tactics by the guerrillas. [redacted]

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The high command has tried to reduce tensions by giving Ochoa a choice assignment abroad and by gaining Garcia's promise to retire within two or three months. This compromise enables both to save face and allows the officer corps time to reach consensus on a new leader. The recent appointment of one of Ochoa's backers as commander of Cabanas Department appears intended to reassure his supporters that no reprisals will be taken.

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Nevertheless, the high command's refusal to punish what was widely seen as a serious breach of military discipline already is giving rise to additional agitation by Garcia opponents. [redacted]

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Military Uncertainty

Garcia's position appears untenable. [redacted]

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The erosion of support follows six months of growing criticism in the armed forces over Garcia's judgment and leadership. His failure to gauge the extent of his opposition at the beginning of Ochoa's rebellion probably has reinforced longstanding fears that he has become isolated from the war and his troops. [redacted]

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The sympathy for Ochoa also underscores growing military frustration over Garcia's reluctance to adopt a more aggressive war strategy. Ochoa had repeatedly criticized the high command's emphasis on large-scale operations. During Ochoa's rebellion, his condemnation of Garcia's conventional strategy was endorsed by officers from a variety of units, particularly those in the Air Force. [redacted]

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Such issues probably will not be resolved soon, even with Garcia's retirement. General Vides Casanova, the director of the National Guard, is next in line to head the armed forces. [redacted]

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Vides has indicated to US officials that if the line of succession is maintained, his main objective would be to act as a conciliator and preserve military unity. He lacks a broad base of support in the armed forces, and his ability to institute tactical and strategic changes would be limited. [redacted]

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The Rightist Connection

Ochoa's disagreement with the high command also is based on ideological factors. As an ultraconservative, Ochoa and other like-minded officers have become increasingly frustrated by Garcia's enforcement of government reforms, particularly the agrarian program. Although the ultraconservatives probably represent only about 15 percent of the armed forces, a number of them are important and popular field commanders. [redacted]

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Extreme rightist Assembly leader D'Aubuisson increasingly has tried to exploit dissatisfaction in the military to break the power of Garcia, whom he holds responsible for thwarting his bid for the presidency. [REDACTED]

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[REDACTED] D'Aubuisson's party was the only political grouping that publicly supported Ochoa's actions. [REDACTED]

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Party officials have admitted to contact with Ochoa as the rebellion progressed, but they have denied any involvement in his actions. [REDACTED]

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Encouragement for the Insurgents

The guerrillas have exploited the military power struggle for maximum propaganda and tactical effect. Clandestine radiobroadcasts have emphasized the split in the high command to support the insurgents' claims that the tactical situation is now in their favor. The guerrillas also have used some of Ochoa's allegations of corruption in the high command to buttress their appeals that government troops join with them against military leaders and foreign interests. [REDACTED]

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The insurgents have long planned an offensive for the beginning of this year and may have advanced their timetable to take advantage of the rebellion. They are increasing actions against towns and economic targets throughout the country, particularly in the northeast. [REDACTED]

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The government has launched a major counteroffensive partly designed to indicate the crisis within the armed forces has not deterred its ability to carry the war to the guerrillas. Nevertheless, the operation is being directed almost exclusively by the regional field commander with little support from the General Staff. This is an indication that the military hierarchy may be increasingly preoccupied with its own power struggle. [REDACTED]

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